

**REPORT OF THE AUDIT OF THE  
KNOX COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**September 30, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE 502.573.0050  
FACSIMILE 502.573.0067**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Raymond Smith, Knox County Judge/Executive  
Honorable John Pickard, Knox County Sheriff  
Members of the Knox County Fiscal Court

The enclosed report prepared by Douglas R. Wise & Company, PSC, Certified Public Accountants, presents the Knox County Sheriff's Settlement - 2003 Taxes as of September 30, 2004.

We engaged Berger and Company, CPA, PSC and a member of its consortium, Douglas R. Wise & Company, PSC, to perform the audit of this statement. We worked closely with the firms during our report review process; Berger and Company, CPA, PSC and its subcontractor, Douglas R. Wise & Company, PSC, evaluated the Knox County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure







To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Raymond Smith, Knox County Judge/Executive  
Honorable John Pickard, Knox County Sheriff  
Members of the Knox County Fiscal Court

The enclosed report prepared by Douglas R. Wise & Company, PSC, Certified Public Accountants, presents the Knox County Sheriff's Settlement - 2003 Taxes as of September 30, 2004.

Douglas R. Wise & Company, PSC was part of a consortium of firms who contracted with the Auditor of Public Accounts to perform the financial audit of this statement. As the primary firm in the consortium, Berger & Company CPA, PSC worked closely with the firm during our report review process; Douglas R. Wise & Company, PSC evaluated the Knox County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink that reads "Berger &amp; Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC



**REPORT OF THE AUDIT OF THE  
KNOX COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**September 30, 2004**

**DOUGLAS R.  
WISE &  
C COMPANY, P.S.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**KNOX COUNTY**  
**SHERIFF'S SETTLEMENT - 2003 TAXES**

**September 30, 2004**

Douglas R. Wise & Company, PSC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Knox County Sheriff as of September 30, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$5,405,836 for the districts for 2003 taxes, retaining commissions of \$223,180 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,149,728 to the districts for 2003 Taxes. Taxes of \$2,590 are due to the districts from the Sheriff and refunds of \$4,744 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2003 TAXES .....	3
NOTES TO FINANCIAL STATEMENTS .....	5
COMMENT AND RECOMMENDATION .....	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	13





To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Raymond Smith, Knox County Judge/Executive  
Honorable John Pickard, Knox County Sheriff  
Members of the Knox County Fiscal Court

#### Independent Auditor's Report

We have audited the Knox County Sheriff's Settlement - 2003 Taxes as of September 30, 2004. This tax settlement is the responsibility of the Knox County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Knox County Sheriff's taxes charged, credited, and paid as of September 30, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 12, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Raymond Smith, Knox County Judge/Executive  
Honorable John Pickard, Knox County Sheriff  
Members of the Knox County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in black ink that reads "Douglas R. Wise & Company PSC". The signature is written in a cursive, flowing style.

Douglas R. Wise & Company, PSC

Audit fieldwork completed -  
July 12, 2005

KNOX COUNTY  
JOHN PICKARD, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES

September 30, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 599,719	\$ 796,152	\$ 2,175,313	\$ 781,986
Tangible Personal Property	110,180	121,528	264,000	199,230
Intangible Personal Property				64,571
Fire Protection	1,865			
Franchise Corporation	128,143	149,823	327,853	
Additional Billings	13,792	17,437	45,044	20,627
Unmined Coal - 2003 Taxes	2,591	3,354	11,153	3,379
Oil and Gas Property Taxes	19,570	25,326	84,227	25,517
Penalties	5,948	7,784	21,420	8,111
Adjusted to Sheriff's Receipt	(97)	(2)	-	(17)
Gross Chargeable to Sheriff	<u>\$ 881,711</u>	<u>\$ 1,121,402</u>	<u>\$ 2,929,010</u>	<u>\$ 1,103,404</u>
<u>Credits</u>				
Exonerations	\$ 13,378	\$ 17,728	\$ 52,453	\$ 16,349
Discounts	9,805	12,506	32,734	15,058
Delinquents:				
Real Estate	49,855	66,450	187,062	66,434
Tangible Personal Property	9,035	10,134	23,974	16,273
Intangible Personal Property				280
Unmined Coal - 2003 Taxes	233	302	1,004	369
Oil & Gas Property	273	353	1,176	
Uncollected Franchise	5,722	6,636	14,115	
Total Credits	<u>\$ 88,301</u>	<u>\$ 114,109</u>	<u>\$ 312,518</u>	<u>\$ 114,763</u>
Taxes Collected	\$ 793,410	\$ 1,007,293	\$ 2,616,492	\$ 988,641
Less: Commissions *	<u>34,007</u>	<u>42,208</u>	<u>104,660</u>	<u>42,305</u>
Taxes Due	\$ 759,403	\$ 965,085	\$ 2,511,832	\$ 946,336
Taxes Paid	757,557	958,928	2,496,304	936,939
Refunds (Current and Prior Year)	<u>4,504</u>	<u>5,198</u>	<u>13,897</u>	<u>11,483</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (2,658)</u>	<u>\$ 959</u>	<u>\$ 1,631</u>	<u>\$ (2,086)</u>

\* And \*\* See Page 4

The accompanying notes are an integral part of this financial statement.

KNOX COUNTY  
 JOHN PICKARD, COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2003 TAXES  
 September 30, 2004  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	2,760,816
4% on	\$	2,616,492
1% on	\$	18,528

\*\* Special Taxing Districts:

Library District	\$	28
Health District		531
Extension District		248
Soil Conservation		21
Ambulance		117
Artemus Fire District		14
		<hr/>
Due Districts	\$	<u>959</u>

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of September 30, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENT  
September 30, 2004  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 2004 through September 30, 2004.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2003. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 27, 2004 through September 30, 2004.

Note 4. Interest Income

The Knox County Sheriff earned \$4,007 as interest income on 2003 taxes. As of July 12, 2005, the Sheriff owes \$1,939 in interest to the school district and \$2,068 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Knox County Sheriff collected \$33,425 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Knox County Sheriff collected \$1,695 of advertising costs and \$1,635 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION



KNOX COUNTY  
JOHN PICKARD, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of September 30, 2004

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness.

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the monthly tax reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: None.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





The Honorable Raymond Smith, Knox County Judge/Executive  
Honorable John Pickard, Knox County Sheriff  
Members of the Knox County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Knox County Sheriff's Settlement - 2003 Taxes as of September 30, 2004, and have issued our report thereon dated July 12, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Knox County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knox County Sheriff's Settlement - 2003 Taxes as of September 30, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Douglas R. Wise & Company PSC". The signature is written in a cursive, flowing style.

Douglas R. Wise & Company, PSC

Audit fieldwork completed -  
July 12, 2005

105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404

TELEPHONE 502.573.0050  
FACSIMILE 502.573.0067  
[WWW.KYAUDITOR.NET](http://WWW.KYAUDITOR.NET)

AN EQUAL OPPORTUNITY EMPLOYER M / F / D

